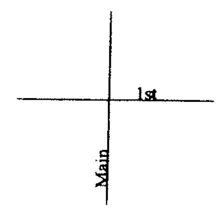
Private Investment Infrastructure Funding (PIIF) Option – An Overview (HB 5461)

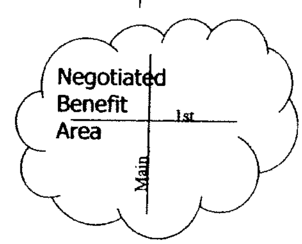
The Concept: The PIIF offers a new capital source for public infrastructure projects. It allows an investor to fund all or part of the infrastructure improvement and to be repaid, over time, with the potential to earn interest on the initial investment, based on the capture of a dedicated portion of the increase in property tax revenues ("tax increment") in a specific "negotiated benefit area."

How it would work:

- An infrastructure project is proposed
- A partnership is created involving:
  - The entity owning the infrastructure,
  - The municipality (or municipalities) where the infrastructure is located (could be the same as the first partner) and
  - The county general government.

  The partnership is known as the Negotiating Partnership (NP).
- The NP then:
  - Confirms the feasibility and desirability of the project.
  - Identifies the area around the project in which the property tax increment will be captured (the Negotiated Benefit Area or NBA).
  - Identifies the investor(s) who will fund the project.
  - Negotiates with the investor(s) to set the rate of return that the investor will receive (dependent upon the value of the property within the NBA increasing sufficiently over the duration of the payback period).
  - Identifies the payback period.
  - Once the proposed deal has been negotiated, the NP seeks approval from the governing bodies of each member of the NP.
- The project is administered by the agency owning the infrastructure.
- The county general government (or another willing governmental agency) administers tax collection & assessment-related aspects of the project.





Who could be the investor(s) in a PIIF:

- A property owner within the NBA
- An employer or developer wishing to initiate a development in the NBA
- Anyone wishing to promote economic development
- A group of property owners, business owners or residents
- A Wall Street investor
- Any other private investor

Other Key Points:

1. Any risk that the tax capture does not generate enough revenue to service the debt will be born by the investor. The public sector (municipality, county, road commission, drain commission, etc.) and the non-investor property owners in the NBA are not exposed to any financial risk.
2. A PIIF would not create any new tax burden for property owners.
3. Taxing entities that ordinarily receive revenues from property taxes levied in the NBA, with the exception of the municipality, would be allowed to "opt out" of the PIIF (school districts, community colleges, the county, park authorities, etc.).
4. The term of the dedicated tax increment revenue will be extended if insufficient revenue is generated in the initial term to repay the principal and interest, to a maximum of 25 years.
5. All available tax benefits for the investors in a PIIF would be utilized.

Examples of potential PIIF projects: utility extension, road repavement, addition of turn lane, installation of storm sewers, infrastructure related to employer attraction and/or transportation needs, etc.

PIIF Application Example I:
Improvements to residential subdivision (400 lots)

Needs curb/gutter repairing, storm water management, subdivision park enhancements, etc.

- Negotiating Partnership (NP) determines the 400 lots will benefit from the proposed improvements to the subdivision, and that the 400 lots will generate enough property tax increment to repay the investor over 10 years. The subdivision is established as the Negotiated Benefit Area (NBA).
- NP agrees to use future increases in taxes from the NBA to pay principal and interest to investors who made the funds available.
- Investors include some subdivision lot owners.
- All homeowners benefit.

PIIF Application Example II:
Construction of a parking garage adjacent to new transit station

Community determines "park and ride" parking garage is needed to make transit station viable, but has no funding source for the garage construction.

- Negotiation Partnership (NP) determines that a viable transit station will increase the value of all real estate within one block of the station. This area is established as the Negotiated Benefit Area (NBA).
- The NP agrees to use future increases in taxes from NBA to pay principal and interest to the investors who made the funds available.
- Investors may include the owners of properties within the NBA.
- The garage is built, allowing the transit station to be built, and all property values in the NBA go up.
- Reinvestment is encouraged in previously deteriorating area.

HB 5461
The Private Investment Infrastructure Funding Option (PIIF)

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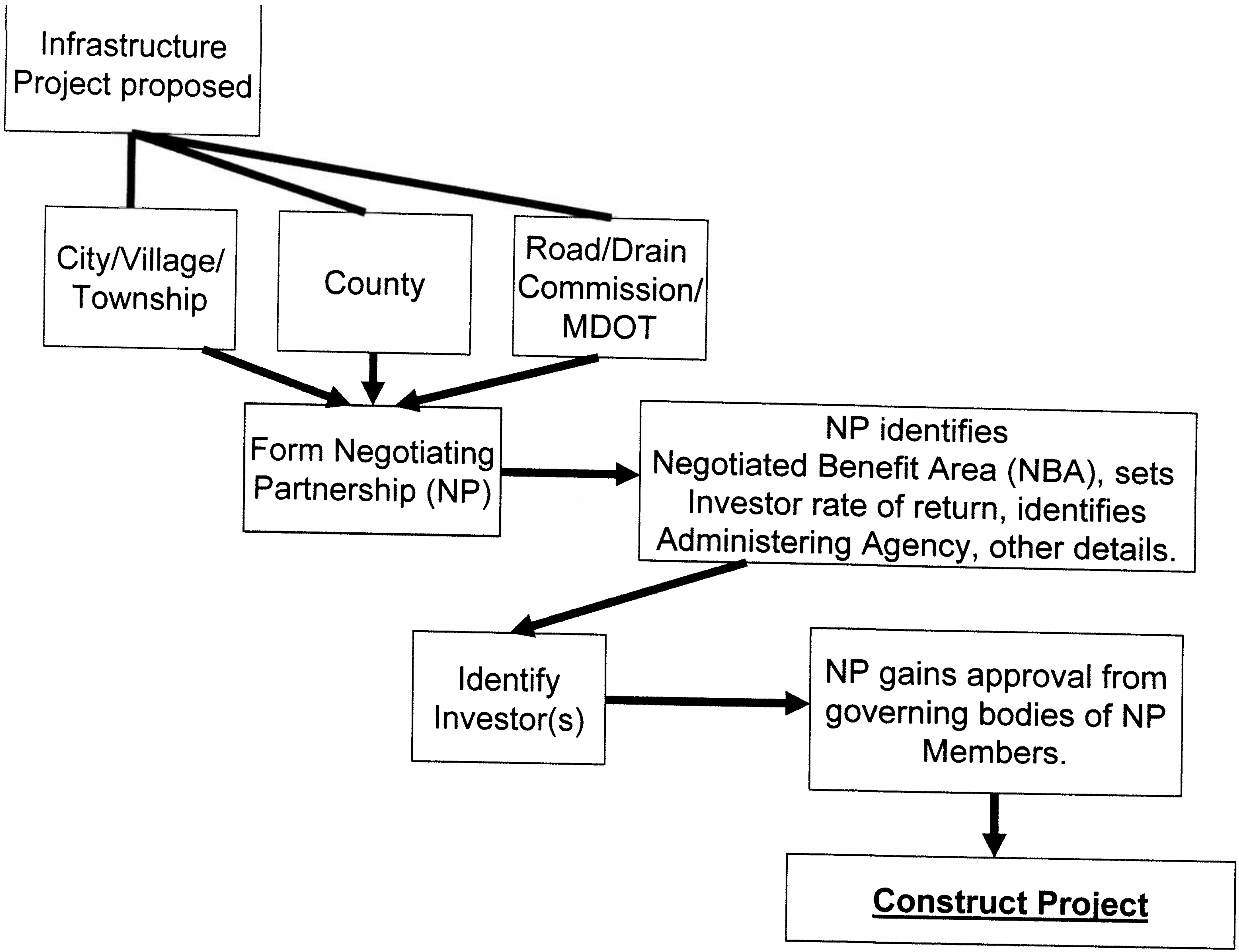
The Concept:

- Create a new funding source for infrastructure improvements.
- Raise revenues without raising taxes.
- Employ a “market-based” model.
- Is funded through private investment.
- The investor is repaid from a portion of property tax revenue growth.
- Allows the investor to receive a return on investment.
- More flexible than a TIFA or DDA.

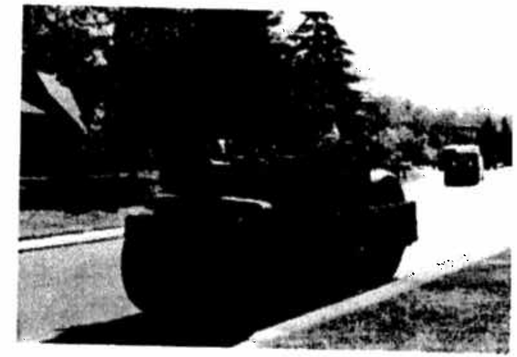

Infrastructure Project proposed
City/Village/ Township
County
Road/Drain Commission/ MDOT
Form Negotiating Partnership (NP)
NP identifies Negotiated Benefit Area (NBA), sets Investor rate of return, identifies Administering Agency, other details.
Identify Investor(s)
NP gains approval from governing bodies of NP Members.
Construct Project

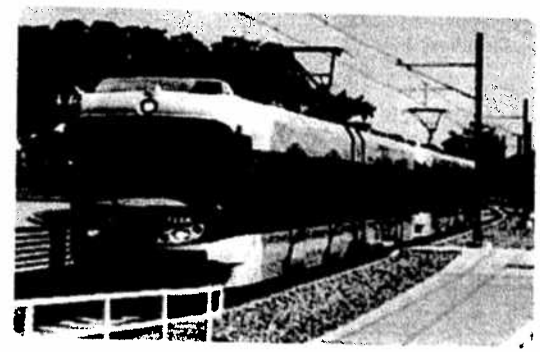
Who could fund a PIIF project?

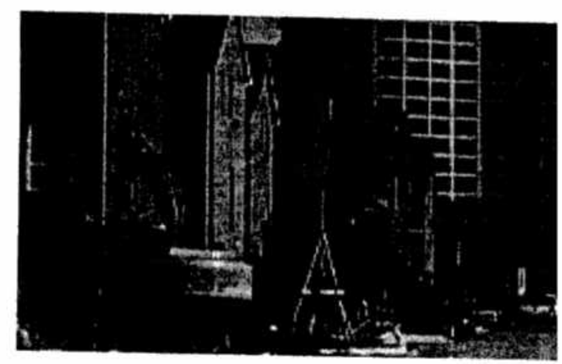
- Anyone wishing to promote economic development
- An individual or group of interested property owners, business owners, employers or residents
- Any other investors (public or private)

Examples of potential PIIF projects:

- Road improvements,
- Public transit & related infrastructure,
- Infrastructure related to employer attraction (jobs)







A few final thoughts:

- The PIIF is a NEW funding source that could be used to improve infrastructure and create jobs.
- The PIIF offers great opportunities for economic enhancements for both rural & urban situations.
- It will not work in all cases.
- However, the more options we have, the greater the likelihood that we can make improvements.